

# CABINET

## Medium Term Financial Strategy

2026/27 – 2030/31

10 February 2026

### Report of Chief Finance Officer

PURPOSE OF REPORT					
To provide an update on the Council's Medium Term Financial Strategy (MTFS) forecasts for 2026/27 to 2030/31					
Key Decision		Non-Key Decision	X	Referral from Cabinet Member	
Date of notice of forthcoming key decision					

#### RECOMMENDATION OF COUNCILLOR HAMILTON-COX

1. That Cabinet

- (1) Considers the draft future years budget estimates as set out in the report as the latest information available.
- (2) Agrees that the update be referred on to Council 25 February 2026 for information. A final consolidated medium term financial strategy will be agreed by the s151 officer in consultation with the portfolio holder before being presented to Full Council in March.

1.0 INTRODUCTION

- 1.1 The previous reports on this agenda considered the annual process for setting the Council's revenue and capital budgets for 2026/27. This report sets out the context in which future decisions on resource allocation and budgeting will be taken.
- 1.2 The Medium-Term Financial Strategy (MTFS) sets out how Lancaster City Council will manage its finances to deliver against its corporate priorities, whilst protecting its financial standing and responding to the many challenges it faces. A final consolidated medium term financial strategy will be agreed by the s151 officer in consultation with the portfolio holder before being presented to Full Council in March. This will in turn inform the future budget setting process.

2.0 LOCAL GOVERNMENT FUNDING & BUSINESS RATES

***The Local Government Finance Settlement***

- 2.1 The government released the provisional multi-year local government finance settlement on 17 December 2025, and the final is expected to be received on 9 February 2026 which is after the date this report was published. No differences between the provisional and final settlements are expected however should there be any, then alterations will be highlighted in the report to Budget Council on 25 February 2026.
- 2.2 The settlement sets out simplified allocations for local authorities across England for the next three years, and incorporates an updated distribution of resources following the conclusion

of the Fair Funding Review. It incorporates changes to the business rates system and in whole, represents a major change in local government financing.

- 2.3 Given all the changes, the effect of the local government settlement and the changes to the business rates system cannot be considered in isolation and the following table illustrates the overall financial impact.

**Table 1 – Settlement allocations for Lancaster City Council**

	2026/27 £'000	2027/28 £'000	2028/29 £'000	2029/30 £'000	2030/31 £'000
<i>Items included in MTFS presented to Cabinet 2/12/25 :</i>					
Reversal of Grants budgeted for :					
- RSG	460	460	460	460	460
- Recovery	603	603	603	603	603
- Domestic Abuse	34	34	34	34	34
- NIC Rebate	211	217	222	227	227
Reversal of Business Rates Income Included in MTFS	13,641	13,832	12,145	12,411	12,659
	<b>14,949</b>	<b>15,146</b>	<b>13,464</b>	<b>13,735</b>	<b>13,983</b>
<i>Replaced With :</i>					
FFA Baseline Funding Level	5,165	5,283	5,390	5,498	5,608
FFA Revenue Support Grant	6,031	5,986	5,910	5,794	5,680
Recovery Grant	603	603	603	603	603
Green Energy Disregard	3,998	3,998	3,998	3,998	3,998
	<b>15,797</b>	<b>15,870</b>	<b>15,901</b>	<b>15,893</b>	<b>15,889</b>
<b>Estimated Favourable Settlement Position</b>	<b>848</b>	<b>724</b>	<b>2,437</b>	<b>2,158</b>	<b>1,906</b>

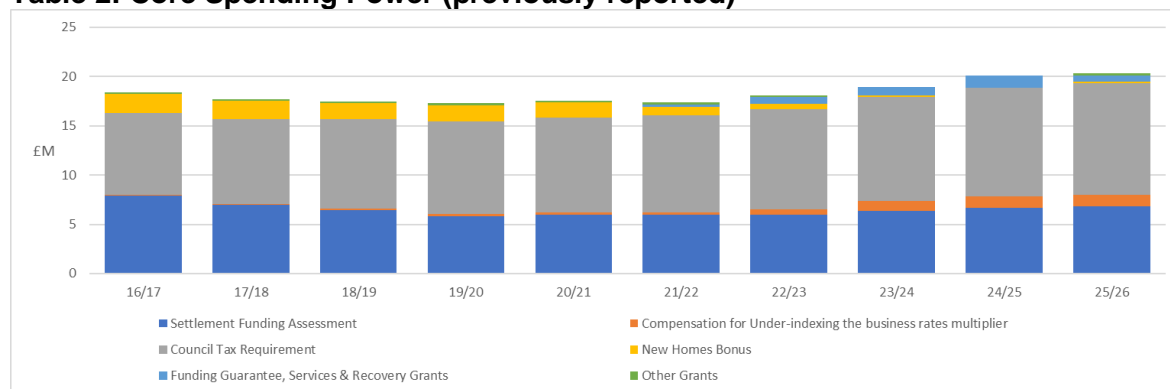
As table 2 shows, the settlement allocates £0.848M more resources in 2026/27 with further favourable and future years from Central Government than anticipated and this is favourable in context of the budget gap for the revenue budget.

### Core Spending Power

- 2.4 Core Spending Power (CSP) is a measure used by the Government to set out the resources available to a Council to fund service delivery. It combines certain grants payable to the Council together with estimates of Business Rates and Council Tax, these estimates are based on Government assumptions. CSP is used by the Government to make comparisons of the resources available to different Councils. As such, it is not necessarily the actual funding a Council will receive to fund service delivery.

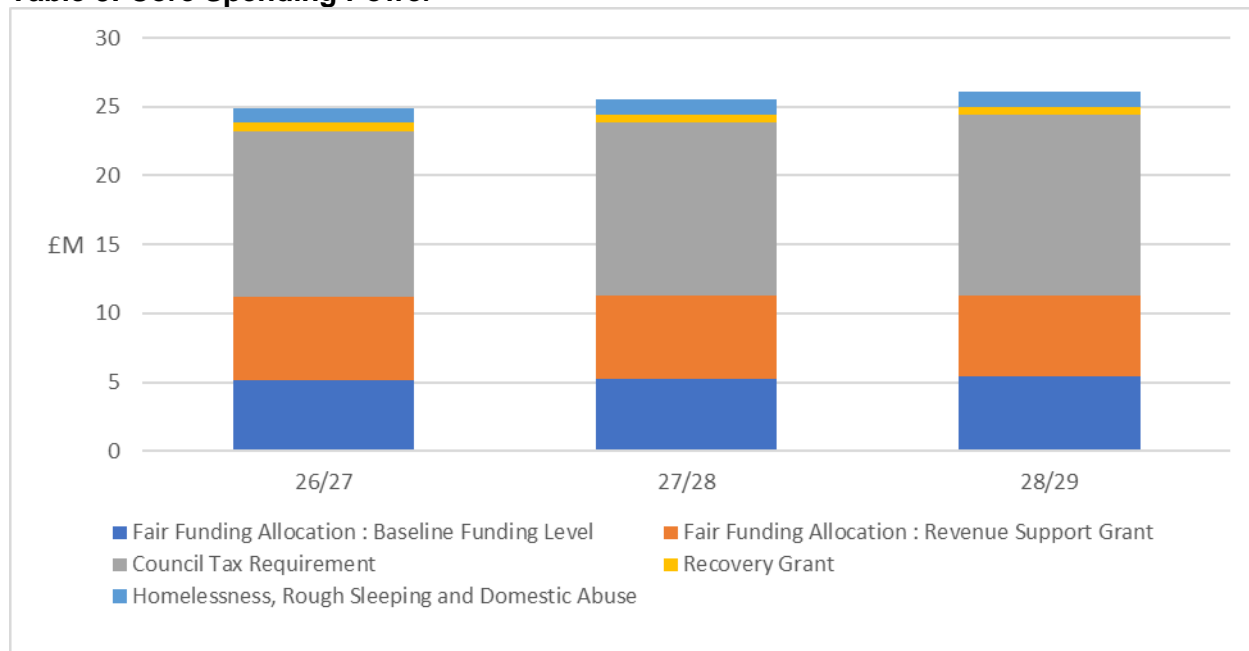
Table 2 below displays the previous historic values of CSP, and shows the Council being almost entirely reliant on Council Tax and Business Rates with a small amount of income from central government grants to fund net expenditure.

**Table 2: Core Spending Power (previously reported)**



The simplification of the settlement alongside has resulted in an overhaul of the elements used to calculate the overall CSP and as such it is difficult to compare the individual elements to previous years. The following table illustrates the new method of calculation for 2026/27 and the following two years.

**Table 3: Core Spending Power**



Further analysis of the provisional settlement is provided in the following table :-

**Table 4: Core Spending Power (Breakdown)**

	2026/27 £'M	2027/28 £'M	2028/29 £'M
Council Tax Requirement	12.051	12.574	13.120
Fair Funding Allocation : Baseline Funding Level	5.165	5.283	5.390
Fair Funding Allocation : Revenue Support Grant	6.031	5.986	5.910
Recovery Grant	0.603	0.603	0.603
Homelessness, Rough Sleeping and Domestic Abuse Grant	1.012	1.050	1.083
<b>Grand Total</b>	<b>24.862</b>	<b>25.496</b>	<b>26.106</b>

- 2.5 Given the changes made the government issued a revised CSP figure for 2025/26 of £23.848M. The total value of CSP for 2026/27 is £24.862M which is an increase of £1.014M, or 4.2%. For information, this is in comparison to the average CSP for all Councils in England of 5.7%.

### **Business Rates**

- 2.6 The Council is required to submit its annual business rates return (NNDR1) to the Government by the end of January in which it estimates business rates income for 2026/27 and the estimated deficit or surplus as at the end of 2025/26.
- 2.7 The previously announced Government changes will come into effect from 1 April 2026 with regard to increasing the number of multipliers and introduction of new thresholds. Business rates baselines have also been reset (incorporating growth).
- 2.8 Previously, lower tier Council's had a baseline position and were allowed to retain a

proportion of any growth received above it. With the continuation of the power stations the Council have always exceeded the baseline position and has benefitted from additional rates received. For information the power stations have been included within the baseline figures.

- 2.9 This system has now been replaced by the funding reforms and the government have offered 100% protection on the baseline funding level in 2026/27. This has allowed for more certainty in calculating the proportion of rates due to the Council.
- 2.10 Members will be aware of decommissioning plans for the Heysham 1 and Heysham 2 nuclear reactors which will have a significant impact on the Council's finances. Currently the rateable value of the reactor's accounts for a substantial proportion of the Council's total rateable value. Central Government operates a "safety net" system to protect those Councils which see their year-on-year business rate income fall.

The Council's exposure is expected that it will inevitably fall into a safety net scenario and will need to rely on the Business Rates Retention Reserve (BRRR) to smooth operational shortfalls in the short term. This is currently expected to arise in 2028/29 in line with the current decommissioning date for Heysham 1 of March 2028. EDF Energy have indicated that there may be some scope to extend generation and are keeping this under review being unable to provide any certainty at this stage.

- 2.11 The Council receives rating income from renewable energy schemes within the district, largely in relation to Walney Sub-Station. Although listed as £3.998M in details of the settlement, the revaluations taken place have increased the value of this income to £4.627M in 2026/27 (£4.004M for 2025/26). A majority of the income currently falls outside of the main rate retention scheme, and so the Council will continue to retain the full benefit from it. Whilst it is evident that this 100% disregard will continue into 2026/27, there is a risk of appeals plus also that the Government may discontinue this advantageous arrangement at some point in the future.
- 2.12 The inherent risk associated with the NNDR1 is that the final outturn surplus or deficit position differs substantially from the estimate, and this has indeed been the case at the Council in recent years. Members will recall that the BRRR is used to manage the impact of surpluses and deficits and also to manage fluctuations in income levels in order to provide budgetary stability and smooth out year on year peaks and troughs. As part of the 2025/26 budget setting process, a contribution of £0.600M (2026/27) and £0.500M (2027/28) from the BRRR were included and these contributions have now been removed due to the reduced risk of lower levels of rates being received in those financial years.
- 2.13 The Council is expected to repay prior year deficits to the collection fund account in respect of business rates. This amount is currently valued at £0.693M and is to be funded by the BRRR in 2026/27 and therefore have no impact on the council tax requirement calculation in 2026/27.

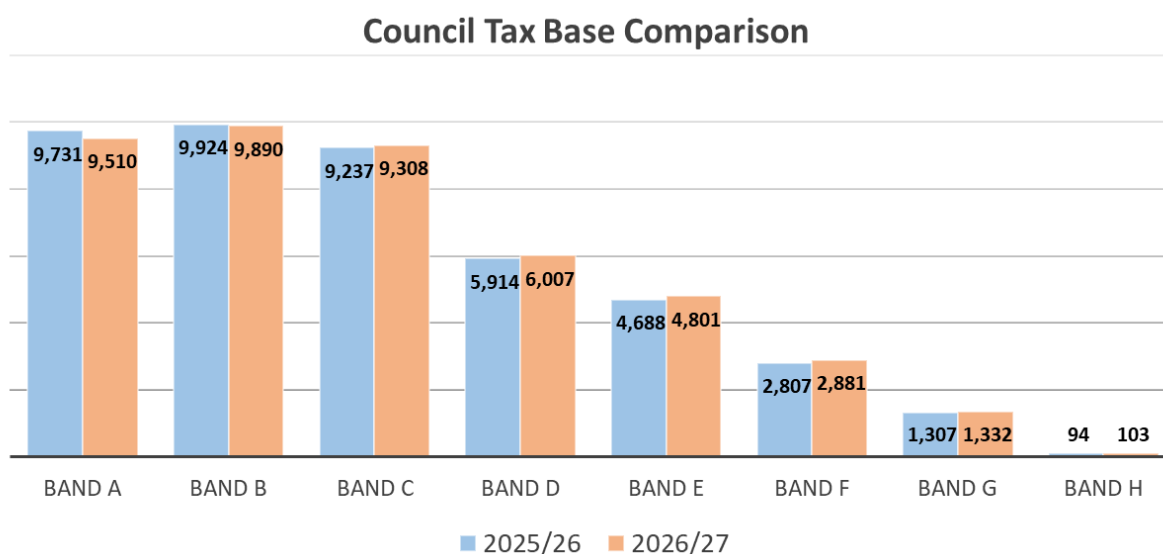
### **3.0 COUNCIL TAX**

#### Council Tax

- 3.1 Council tax is a primary source of the Council's funding and is calculated by multiplying the tax base by the number of eligible residential properties (expressed in band D equivalents), and the level of the district council precept which is determined each year. Growth in housing numbers inevitably increases the taxbase and, therefore, Council Tax income.

- 3.2 The tax base for 2026/27 has been calculated as 43,833 Band D equivalent properties after allowing for a collection rate of 98.68%, the same as in previous years. This equates to an increase in the tax base from 43,702 (0.3%) in 2025/26.

From 2026/27 1% growth in the Tax base has been used for forecasting purposes.



- 3.3 The Council recognises the impact that Council Tax has on its residents and will always take their ability to pay into consideration when setting Council Tax levels. It provides a 100% Local Council Tax Support Scheme. However, the Council should adopt an approach where local sources of funding are maximised as far as is reasonably practicable to do so.
- 3.4 Government's referendum criteria limits increases in the Council's element of Council Tax to 3% or £5, whichever is greater. For the purposes of forecasting, it has been assumed that the Council will increase council tax by 2.99%, the maximum allowed, before triggering a referendum in each of the next three years.
- 3.5 The table below sets out Council Tax forecasts for the next five years including a sensitivity analysis showing the potential impact on council tax yield of different scenarios.

**Table 5: Council Tax Forecasts**

	Actual 2025/26	Forecast 2026/27	Forecast 2027/28	Forecast 2028/29	Forecast 2029/30	Forecast 2030/31
Council Tax Band D 2.99% increase	£264.30	£272.20	£280.34	£288.72	£297.35	£306.24
Council Tax Band D (£5 increase)	£264.30	£269.30	£274.30	£279.30	£284.30	£289.30
Tax base (1% growth from 2026/27)	43,702	43,833	44,271	44,714	45,161	45,613
<b>Council Tax Income (based on 2.99%)</b>	<b>£10,610,019</b>	<b>£11,931,343</b>	<b>£12,410,932</b>	<b>£12,909,826</b>	<b>£13,428,623</b>	<b>£13,968,525</b>
Previous MTFS		£12,015,000	£12,498,000	£13,000,000	£13,522,000	£14,066,000
<b>Difference Increase or (Decrease)</b>		<b>-£83,657</b>	<b>-£87,068</b>	<b>-£90,174</b>	<b>-£93,377</b>	<b>-£97,475</b>
<b>Scenario 1</b> – No increase in Council tax over period of MTFS		<b>-£429,938</b>	<b>-£797,175</b>	<b>-£1,182,090</b>	<b>-£1,585,948</b>	<b>-£2,010,484</b>
<b>Scenario 2</b> – Council Tax Band D (£5 increase)		<b>-£210,773</b>	<b>-£354,465</b>	<b>-£511,380</b>	<b>-£682,728</b>	<b>-£870,159</b>
<b>Scenario 3</b> – 1.5% increase in tax base growth & 2.99% increase from 2026/27)		<b>-£83,657</b>	<b>-£25,673</b>	£37,729	£106,740	£180,897

- 3.6 The Council is expected to benefit from prior year surpluses to the collection fund account in respect of council tax. This amount is currently valued at £0.169M and is included within the council tax requirement calculation in 2026/27.

#### 4.0 GENERAL FUND PROJECTIONS

- 4.1 Table 6 below outlines the current forecast budgetary position for 2026/27 to 2030/31

**Table 6: General Fund Revenue Projections 2026/27 to 2030/31**

	2026/27 £'M	2027/28 £'M	2028/29 £'M	2029/30 £'M	2030/31 £'M
<b>Revenue Budget Forecast as at 26 February 2025</b>	<b>28.749</b>	<b>29.489</b>	<b>30.118</b>	<b>31.873</b>	<b>32.829</b>
<b>Base Budget Changes</b>					
Operational Base Budget Changes	(0.419)	1.253	0.555	0.683	(0.356)
Pensions (Employer Contribution Reduction)	(1.756)	(1.744)	(1.744)	(1.767)	(1.789)
Reversal of Items Now Included in Local Government Finance Settlement	0.848	0.854	0.859	0.864	0.864
	<b>27.422</b>	<b>29.852</b>	<b>29.788</b>	<b>31.653</b>	<b>31.548</b>
<b>Additional Budget Proposals</b>					
Savings Proposals	(0.187)	(0.190)	(0.191)	(0.191)	(0.192)
Growth Proposals	0.590	0.588	0.472	0.482	0.494
Revenue Impact Current Capital Programme Review (MRP & Interest)	(0.615)	(0.646)	(0.503)	(0.462)	(0.319)
Revenue Impact of Capital Programme Growth (MRP, Interest & Revenue)	0.163	0.787	0.761	0.789	0.811
	<b>(0.049)</b>	<b>0.539</b>	<b>0.539</b>	<b>0.618</b>	<b>0.794</b>
<b>General Fund Revenue Budget</b>	<b>27.373</b>	<b>30.391</b>	<b>30.327</b>	<b>32.271</b>	<b>32.342</b>
<b>Core Funding</b>					
Reversal of RSG Replaced by Local Government Finance Settlement	0.460	0.460	0.460	0.460	0.460
Fair Funding Assessment Baseline Funding Level	(5.165)	(5.283)	(5.390)	(5.498)	(5.608)
Fair Funding Assessment Revenue Support Grant	(6.031)	(5.986)	(5.910)	(5.794)	(5.680)
Recovery Grant	(0.603)	(0.603)	(0.603)	(0.603)	(0.603)
Green Energy Disregard	(4.627)	(4.627)	(4.627)	(4.627)	(4.627)
Prior Year Council Tax (Surplus)/Deficit	(0.169)				
Prior Year Business Rates (Surplus)/Deficit	0.693				
<b>Council Tax Requirement</b>	<b>11.931</b>	<b>14.352</b>	<b>14.257</b>	<b>16.209</b>	<b>16.284</b>
<b>Estimated Council Tax Income</b>					
(Increase Based on 2.99% for 2026/27 then maximum allowable)	(11.931)	(12.411)	(12.910)	(13.429)	(13.969)
<b>Resulting Base Budget (Surplus)/ Deficit</b>	<b>0.000</b>	<b>1.941</b>	<b>1.347</b>	<b>2.780</b>	<b>2.315</b>

- 4.2 The table shows that, despite of the work undertaken by Officers and Members to balance the budget for 2026/27, the Council's current MTFS suggests a structural budget gap in 2027/28 onwards which fluctuates between approximately £1.347M and £2.780M. If this is not closed, then balances will be required to make up the difference.

#### Budget Principles and Assumptions

- 4.3 Within the revenue budget there are several principles and key assumptions underpinning the proposed revenue strategy. These are:
- Annually, a balanced revenue budget will be set with expenditure limited to the amount of available resources
  - No long-term use of balances to meet recurring baseline expenditure
  - Resources will be targeted to deliver corporate outcomes and value for money. Any additional investment and spending decisions will be made to reflect Council priorities and strategic commitments
- 4.4 Table 7 below, lists the major assumptions that have been made within the MTFS.

**Table 7: 5 Year MTFS Planning Assumptions**

	2026/27	2027/28	2028/29	2029/30	2030/31
Council Tax Base Growth	1.00%	1.00%	1.00%	1.00%	1.00%
Council Tax Increase	2.99%	2.99%	2.99%	2.99%	2.99%
Council Tax Collection Rate	98.67%	98.67%	98.67%	98.67%	98.67%
Fees & Charges	3.80%	2.20%	2.00%	2.00%	2.00%
Pay Award	3.00%	3.00%	3.00%	3.00%	3.00%
Employer Pensions Contribution	10.40%	10.40%	10.40%	10.40%	10.40%
Electricity	24p/kwh	-9.81%	-4.38%	-6.79%	-17.61%
Gas	3.5p/kwh	2.20%	2.00%	2.00%	2.00%
Other inflation	3.80%	2.20%	2.00%	2.00%	2.00%
Interest Rate – investments	4.00%	3.25%	3.00%	3.00%	3.00%
Interest Rate – new borrowing	4.70%	4.30%	4.30%	4.30%	4.30%

**Savings and Growth Proposals**

- 4.5 The budget savings or growth proposals, relate to several areas where actions are being undertaken by the Council and are incorporated within the MTFS. Some of the key areas are summarised by Service in the table below, with more information included within the Budget and Policy Framework General Fund Revenue Budget 2026/27 item on the agenda.

**Table 8: Directorate Summary Savings & Growth Proposals**

	2026/27 £'M	2027/28 £'M	2028/29 £'M	2029/30 £'M	2030/31 £'M
Environment & Place	0.286	0.293	0.301	0.308	0.317
Governance	0.077	0.052	0.053	0.054	0.055
People & Policy	0.047	0.050	0.053	0.056	0.059
Planning & Climate Change	(0.015)	(0.054)	(0.051)	(0.049)	(0.048)
Resources	(0.032)	(0.033)	(0.035)	(0.036)	(0.037)
Sustainable Growth	0.040	0.090	(0.040)	(0.042)	(0.044)
<b>Total (Savings)/Growth</b>	<b>0.403</b>	<b>0.398</b>	<b>0.281</b>	<b>0.291</b>	<b>0.302</b>

- 4.6 As part of the Council's quarterly monitoring process (Delivering our Priorities), progress by Budget Holders against these targets will be monitored and reported to Members via Cabinet and Budget & Performance Panel.

**Revenue Impact of Capital Programme Budget Process & Review**

- 4.7 Cabinet and Strategic Leadership Team have considered new schemes for inclusion in the Capital Programme via the submission of strategic outline followed by full business cases during the budget process. The Council's previous Capital Programme has also been reviewed with a view to repositioning and reprofiling several capital schemes. This has altered the impact that capital projects have on revenue due to Minimum Revenue Provision (MRP) and interest costs, whilst some schemes will generate ongoing revenue implications. Details of the movement of estimated additional expenditure or savings since the programmes mid-year review approved 24 September 2025 are detailed in the table below:

**Table 9: Revenue Impact of Capital Programme Budget Process & Review**

	2026/27 £'M	2027/28 £'M	2028/29 £'M	2029/30 £'M	2030/31 £'M
Current Capital Programme Review (MRP & Interest)	(0.615)	(0.646)	(0.503)	(0.462)	(0.319)
Capital Programme Growth (MRP & Interest)	0.163	0.829	1.106	1.135	1.158
Capital Programme Growth (Ongoing Revenue)	0.000	(0.042)	(0.345)	(0.346)	(0.347)
<b>Total Impact</b>	<b>(0.452)</b>	<b>0.141</b>	<b>0.258</b>	<b>0.327</b>	<b>0.492</b>

## 5.0 CAPITAL INVESTMENT AND FINANCING

### *Capital Investment*

- 5.1 Through its capital programme the Council plans net investment of £28.582M between 2026/27 and 2030/31 with a further £16.221M currently planned up to 2035/36. This investment will support the delivery of its key Strategic Priorities and Outcomes such as Climate Emergency, Housing and Regeneration as well as investing in existing property, facilities, and equipment to deliver services, or to meet legislative requirements.
- 5.2 The current programme is split between approved schemes, that is those which have a fully formed business case in line with Treasury Green Book requirements, and those still under development for which a provision has been made whilst work is undertaken to fully work up schemes. Schemes classified as Under Development have had strategic outline business cases approved in principle by Cabinet but **cannot** commence until full business cases have been considered and approved, first by the Capital Assurance Group, and then by Cabinet.
- 5.3 Schemes which are in this section of the Capital Programme which will require significant capital expenditures and borrowing will need a business case to demonstrate that income arising from the capital investment can cover all borrowing costs and delivering a positive return to the Council's revenue budget.
- 5.5 Summary details of the current 5-year capital programme are given at table 10 below, with the total in the final column referring to 2026/27 to 2030/31 only.

**Table 10: Capital Programme**

	2025/26 £'M	2026/27 £'M	2027/28 £'M	2028/29 £'M	2029/30 £'M	2030/31 £'M	Total £'M
Approved Schemes							
Environment & Place	7.918	2.441	0.242	2.233	0.935	1.897	<b>7.748</b>
Housing & Property	1.981	1.459	0.030	0.559	0.052	-	<b>2.100</b>
Planning & Climate Change	5.086	0.000	-	-	-	-	<b>0.000</b>
Resources	1.053	1.451	0.326	0.181	0.176	0.467	<b>2.601</b>
Sustainable Growth	0.083	0.210	0.030	1.005	-	-	<b>1.245</b>
Schemes Under Development	-	3.311	10.727	0.390	0.230	0.230	<b>14.888</b>
<b>Total Net Capital Programme</b>	<b>16.121</b>	<b>8.872</b>	<b>11.355</b>	<b>4.368</b>	<b>1.393</b>	<b>2.594</b>	<b>28.582</b>

### *Capital Financing*

- 5.6 The Council's Capital Financing Requirement (CFR) is simply the total amount of capital expenditure (including that from prior years) that has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying need to borrow. Any capital expenditure, which has not immediately been paid for through a revenue or capital resource, will increase the CFR. Based on the draft capital programme the Council's CFR is set to increase from the current estimated 2025/26 position of £110.07M to £114.02M in 2026/27. It is expected to increase further in 2027/28 to £119.79M before decreasing from 2028/29 to £118.40M.



**Table 11: Capital Financing Requirement**

	2024/25 Actual £'M	2025/26 Estimate £'M	2026/27 Estimate £'M	2027/28 Estimate £'M	2028/29 Estimate £'M	2029/30 Estimate £'M	2030/31 Estimate £'M
CFR – Non Housing	64.82	78.07	83.07	89.88	89.53	85.91	83.9
CFR – Housing	33.04	32.00	30.95	29.91	28.87	27.83	26.79
<b>Total CFR</b>	<b>97.86</b>	<b>110.07</b>	<b>114.02</b>	<b>119.79</b>	<b>118.40</b>	<b>113.74</b>	<b>110.69</b>
<b>Movement in CFR</b>							
Non Housing	0.32	13.25	5.00	6.81	-0.35	-3.62	-2.01
Housing	-1.05	-1.04	-1.05	-1.04	-1.04	-1.04	-1.04
<b>Net Movement in CFR</b>	<b>-0.73</b>	<b>12.21</b>	<b>3.95</b>	<b>5.77</b>	<b>-1.39</b>	<b>-4.66</b>	<b>-3.05</b>

<b>Movement in CFR represented by</b>							
Net financing need for the year (above) re Non Housing	3.22	15.96	8.87	11.32	4.37	1.39	2.59
Less MRP/VRP and other financing movements	-3.95	-3.75	-4.92	-5.55	-5.76	-6.05	-5.64
<b>Net Movement in CFR</b>	<b>-0.73</b>	<b>12.21</b>	<b>3.95</b>	<b>5.77</b>	<b>-1.39</b>	<b>-4.66</b>	<b>-3.05</b>

- 5.7 Based on the capital programme, the overall physical borrowing position of the Council is projected to increase by £24.88M over the next three years from its estimated current position of £56.93M to £81.80M at the end of 2028/29 in order to finance the Council's capital ambitions. It is then forecast to reduce slightly year on year reflecting repayments of the HRA self-financing loan. See table 12 below.

**Table 12: Forecast Borrowing Position**

	2024/25 Actual £'M	2025/26 Estimate £'M	2026/27 Estimate £'M	2027/28 Estimate £'M	2028/29 Estimate £'M	2029/30 Estimate £'M	2030/31 Estimate £'M
<b>External Debt</b>							
Debt at 1 April	57.97	56.93	71.89	76.85	81.80	81.76	81.72
Expected Change in Debt	-1.04	13.96	3.96	3.96	-1.04	-1.04	-1.04
Other long-term liabilities (OLTL)	0.00	1.00	1.00	1.00	1.00	1.00	1.00
Expected change in OLTL	0.00	0.00	0.00	0.00	0.00	0.00	0.00
<b>Actual gross debt at 31 March</b>	<b>56.93</b>	<b>71.89</b>	<b>76.85</b>	<b>81.80</b>	<b>81.76</b>	<b>81.72</b>	<b>81.68</b>
<b>The Capital Financing Requirement</b>	<b>97.85</b>	<b>110.07</b>	<b>114.02</b>	<b>119.79</b>	<b>118.40</b>	<b>113.74</b>	<b>110.69</b>
<b>(Under) / over borrowing</b>	<b>-40.93</b>	<b>-38.18</b>	<b>-37.17</b>	<b>-37.99</b>	<b>-36.64</b>	<b>-32.02</b>	<b>-29.01</b>

- 5.8 This level of borrowing is assessed for affordability, sustainability, and prudence in line with the Council's Treasury Management Strategy and requires annual approval by Council following consultation with Budget & Performance Panel. Council will be asked to formally approve the annual Treasury Management Strategy.
- 5.9 The Council is required to repay an element of the accumulated General Fund CFR each year through a revenue charge known as the minimum revenue provision (MRP) together with the interest charges associated with the borrowing. Council is asked to formally approve the MRP policy annually as part of the Treasury Management Strategy.
- 5.10 Tables 13 and 14 provide forecast levels of annual capital financing charges and their respective proportion of the revenue budget.

**Table 13: Revenue Impact of Capital Decisions**

	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31
	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate
	£'M	£'M	£'M	£'M	£'M	£'M
MRP	2.703	3.872	4.505	4.718	5.016	4.601
Interest	1.294	1.899	2.646	2.731	2.772	2.921
<b>Total Impact</b>	<b>3.997</b>	<b>5.771</b>	<b>7.151</b>	<b>7.449</b>	<b>7.788</b>	<b>7.522</b>

**Table 14: Ratio of Financing Costs to Net Revenue Stream**

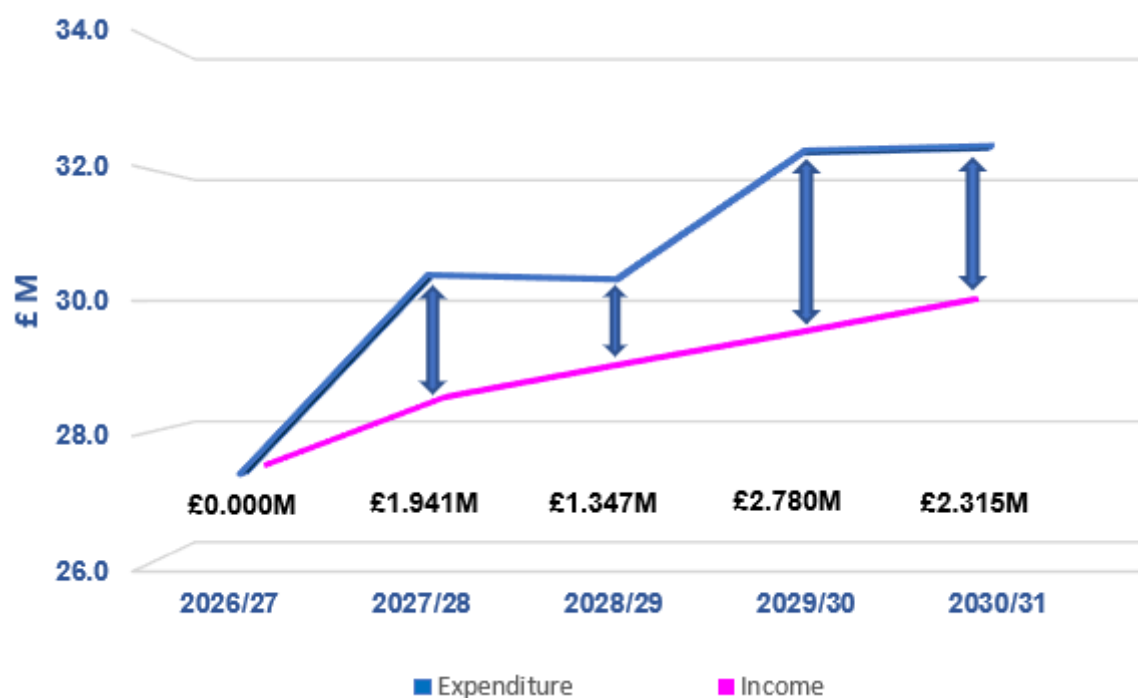
	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31
	Actual	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate
	%	%	%	%	%	%	%
General Fund	16.20	15.52	22.16	24.28	24.32	24.12	20.66
HRA	15.78	15.64	14.61	13.92	13.71	13.07	12.42

- 5.11 As can be seen based on current General Fund capital programme and accompanying borrowing estimates, debt financing costs within the General Fund are set to increase to just under a quarter of the Council's annual net revenue budget. Levels will, therefore, need to be closely monitored and the impact on affordability of new capital schemes carefully considered as part of the business case assessment and governance processes. Estimates within the HRA are currently seen to decrease as the borrowing undertaken as part of HRA self-financing is repaid.
- 5.12 The financing of capital projects can be from a variety of sources, such as external grants, the use of reserves, and the application of capital receipts. A significant workstream for the Asset Working Group is to review and realign the Council's existing asset base to identify those assets which no longer met the Council's objectives and may be able to generate a capital receipt. However, the process does provide a priority order for the use of capital receipts. Firstly, to fund transformation costs, that is costs that are associated with service transformation and delivery of efficiencies. Secondly, investment to reduce costs, which is not necessarily investing in a new asset; and given the levels of current financing costs, giving consideration to financing existing short life assets such as ICT and vehicles to reduce the MRP burden on the General Fund. Finally, the use of receipts to fund other schemes within the Capital Programme.

## 6.0 THE SHORT & MEDIUM-TERM BUDGET GAP

- 6.1 Government funding and income forecasts covered previously within this report, together with the budget expenditure, savings and income estimates that have been calculated as part of the 2026/27 revenue budget process provide an updated forecast of the budget gaps over the next five years. This is shown below in the graph and Table 15 below:-

**Table 15: General Fund Revenue Budget Gap 2026/27 – 2030/31**



**Table 16: Cumulative Deficit as Percentage of Revenue Budget**

	2026/27 £'M	2027/28 £'M	2028/29 £'M	2029/30 £'M	2030/31 £'M
Net Revenue Budget	27.373	30.391	30.327	32.271	32.342
Budget Gap (Incremental)	0.000	1.941	1.347	2.780	2.315
% of Net Revenue Budget (Incremental)	0%	6%	4%	9%	7%
Budget Gap (Cumulative)	0.000	1.941	3.288	6.068	8.383
% of Net Revenue Budget (Cumulative)	0%	6%	11%	19%	26%

6.2 The forecast gaps are structural in nature, meaning that the Council's forecast spending exceeds the income it expects to receive, and this is compounded year on year. This position represents a significant challenge over the short and medium term.

6.3 It should be noted that this forecast is based on a series of estimates and assumptions and so is subject to change when more up to date information becomes available. However, it provides Members with a clear view of the extent of the challenge facing the Council over the coming years.

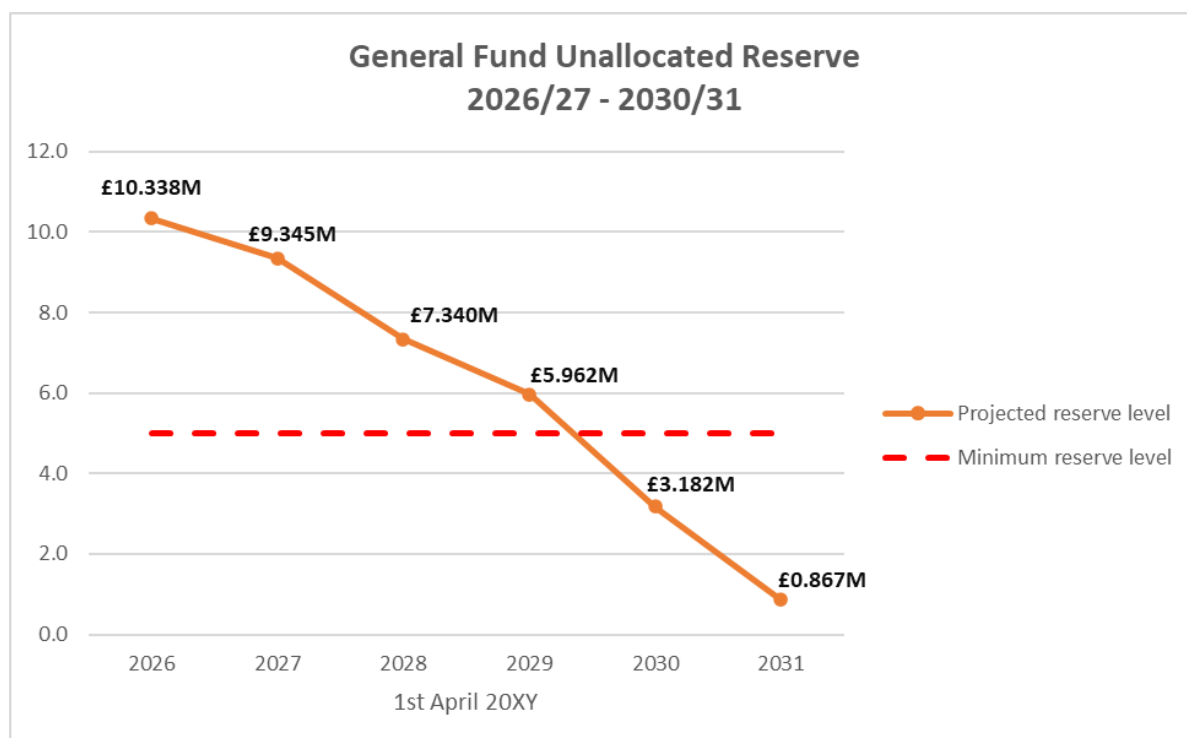
## 7.0 PROVISIONS, RESERVES AND BALANCES

7.1 A Council's reserves are an essential part of good financial management. They help the Council to cope with unpredictable financial pressures and plan for future spending commitments. The level, purpose and planned use of reserves are important factors for the Council as part of the MTFS.

7.2 Councils generally hold two types of reserves, "Unallocated" to meet short term unexpected cost pressures or income reductions and "Earmarked". The latter can be held to provide for some future anticipated expenditure for identified projects, particularly in respect of corporate priorities or address specific risks. They may also provide up-front funding for measures which specifically result in future efficiencies, cost savings or increased income, or to hold

funding from other bodies (mainly Central Government), for specified purposes.

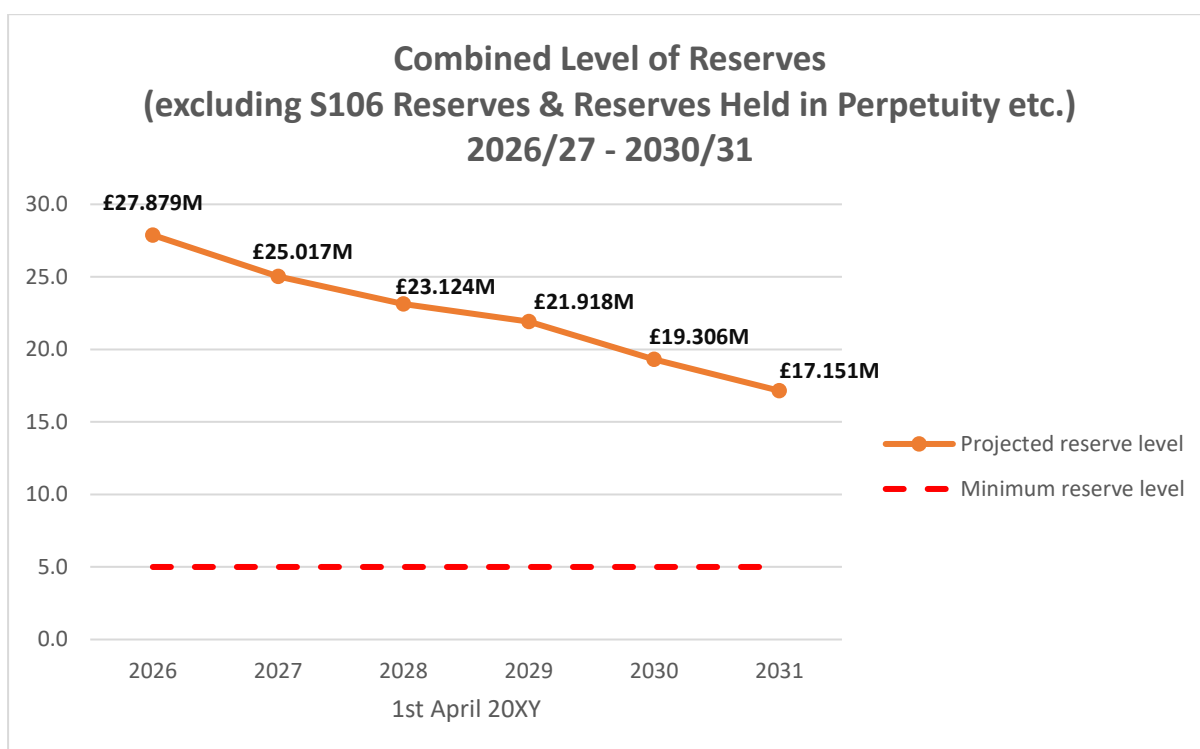
- 7.3 By their nature reserves are finite and, within the existing statutory and regulatory framework, it is the responsibility of the s151 Officer to advise the Council about the level of reserves that it should hold and to ensure that there are clear protocols for their establishment and use. In accordance with the s151 Officers advice the minimum level of General Fund unallocated reserve is £5M.
- 7.4 The graph and Table 17 below provide details of our current forecast level of General Fund Balances including the impact of funding the forecast deficit from this reserve.



**Table 18: Estimated Level of General Fund Unallocated Reserves**

	2025/26 £'M	2026/27 £'M	2027/28 £'M	2028/29 £'M	2029/30 £'M	2030/31 £'M
Balance as at 1 April 2025-30	(10.028)	(10.338)	(9.345)	(7.340)	(5.962)	(3.182)
In Year allocations	0.961	0.993	0.064	0.031	0.000	0.000
Forecast (Under)/Overspend	(1.271)	0.000	1.941	1.347	2.780	2.315
<b>Projected Balance as at 31 March 2026-31</b>	<b>(10.338)</b>	<b>(9.345)</b>	<b>(7.340)</b>	<b>(5.962)</b>	<b>(3.182)</b>	<b>(0.867)</b>

- 7.5 The graph and Table 19 below provide details of our current forecast level of all available Council reserves. The analysis excludes a number of essentially ring-fenced reserves such as s106, reserves held in perpetuity, revenue grants unapplied & elections. It does include reserves such as Business Retention and Renewals Reserves.
- 7.6 The Business Rates Retention Reserve is a mandated reserve, its purpose is to manage the risk of fluctuations in business rates income, including changes in the Council's appeals provision and movements in forecast prior year surpluses or deficits. Whilst the transfers can be made to the general fund it is required to be maintained at a prudent level to manage the risks with business rates and not to support ongoing budget deficits. On this basis the graph below is used to underline the seriousness of the current situation against the Council's entire resource not only the general fund.



**Table 19: Estimated Combined Level of Reserves**  
(excluding Ringfenced Reserves, S106 Reserves & Reserves Held in Perpetuity etc)

	2025/26 £'M	2026/27 £'M	2027/28 £'M	2028/29 £'M	2029/30 £'M	2030/31 £'M
Unallocated Reserve	(10.338)	(9.346)	(9.281)	(9.250)	(9.250)	(9.250)
Other Non-Ring Fenced Reserves	(2.634)	(1.325)	(1.362)	(1.398)	(1.435)	(1.471)
Business Rates Retention Reserve	(12.790)	(12.097)	(12.097)	(12.097)	(12.097)	(12.097)
Renewals Reserve	(2.117)	(2.249)	(2.325)	(2.461)	(2.592)	(2.716)
Forecast Cumulative Deficit Funded From Reserves	+0.000	+0.000	+1.941	+3.288	+6.068	+8.383
<b>Projected Balance as at 31 March 2026-31</b>	<b>(27.879)</b>	<b>(25.017)</b>	<b>(23.124)</b>	<b>(21.918)</b>	<b>(19.306)</b>	<b>(17.151)</b>
Less Recommended Minimum Level of Balances	+5.000	+5.000	+5.000	+5.000	+5.000	+5.000
<b>Available Balances</b>	<b>(22.879)</b>	<b>(20.017)</b>	<b>(18.124)</b>	<b>(16.918)</b>	<b>(14.306)</b>	<b>(12.151)</b>

7.7 This table highlights that whilst a structural deficit still prevails, the level of Councils reserves will diminish over the longer-term but are at a sustainable level throughout the period of the MTFS and the transfer to the new authority under local government reorganisation.

## 8.0 LOCAL GOVERNMENT REORGANISATION (LGR)

8.1 To further reiterate the information reported to Cabinet and Council over the previous two months, the financial impact of LGR expected to be complex with very little information currently available. The financial information which underpins the ongoing budget process has currently been prepared on a 'business as usual' basis.

8.2 The Government is expected to lead a public consultation on the proposals early this year, with a preferred option selected in summer 2026.

- 8.3 If approved, elections for shadow authorities could take place in May 2027, with the new councils taking over all services from 1 April 2028 (vesting day).
- 8.4 Inevitably, this will have financial consequences for the Council however it is expected that partners will enter into the new authority in the best financial health that is possible, in order to maintain both financial and organisational stability.
- 8.5 At the meeting of Lancashire Chief Executives on 8<sup>th</sup> January the options for the creation of a Lancashire Local Government Reorganisation Transition Fund was discussed. The report agreed the following principles:
- a. An initial agreed total sum of £30M
  - b. A split of 75% to Unitary Councils and 25% to District Councils meaning:
    - i. £22.5M Unitary Contribution
    - ii. £7.5M District Contribution

Further to this the allocation options for the districts share has been agreed as based on Tax Base levels. This means that the contribution level for Lancaster is to be £0.831M and it is recommended that this amount is funded from the general fund unallocated reserve.

- 8.6 During the time from now until vesting day, further transitional costs falling upon the council will occur and these will need to be managed from within either the existing budget framework, the use of non-ringfenced reserves or by utilising capital receipts under the 'flexible use of capital receipts' policy where transformation can be demonstrated.

## **9.0 DETAILS OF CONSULTATION**

- 9.1 As this paper is for noting only no formal consultation has been undertaken.

## **10.0 OPTIONS AND OPTIONS ANALYSIS (INCLUDING RISK ASSESSMENT)**

- 10.1 The risks to the Council are contained throughout the report and as the report is for noting, no alternative proposals have been put forward.

## **11.0 CONCLUSION**

- 11.1 Whilst delivering a balanced budget for 2026/27, the Council continues to face unprecedented levels of financial and economic uncertainty. This hampers the degree of confidence with which forecasts can be made and inevitably some key estimates and assumptions are likely to change in the coming months.
- 11.2 The future key challenge surrounding Local Government Reorganisation should not be underestimated and the Council must position itself in the best financial health that is possible, in order to maintain both financial and organisational stability.

### **RELATIONSHIP TO POLICY FRAMEWORK**

Performance, project, and resource monitoring provides a link between the Council Plan and operational achievement, by providing regular updates on the impact of operational initiatives against strategic aims.

### **CONCLUSION OF IMPACT ASSESSMENT**

(including Diversity, Human Rights, Community Safety, Sustainability etc)  
None identified at this stage

**FINANCIAL IMPLICATIONS**

As set out in the report

**S151 OFFICER COMMENTS**

The s151 Officer has authored this report and his views are reflected within.

**LEGAL IMPLICATIONS**

Legal Services have been consulted and have no further comments.

**MONITORING OFFICER'S COMMENTS**

The Monitoring Officer has been consulted and has no further comments.

**BACKGROUND PAPERS**

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**Ref:** N/A